

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

C&F Financial Corporation

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|--------------------------------|------------------|--|------------|
| Point of Contact: | Thomas F. Cherry | RSSD: (For Bank Holding Companies) | 928421 |
| UST Sequence Number: | 324 | Docket Number: (For Thrift Holding Companies) | |
| CPP/CDCI Funds Received: | 20 | FDIC Certificate Number: (For Depository Institutions) | 10363 |
| CPP/CDCI Funds Repaid to Date: | 10 | Credit Union Charter Number: (For Credit Unions) | |
| Date Funded (first funding): | January 09, 2009 | City: | West Point |
| Date Repaid ¹ : | 7/27/2011 | State: | Virginia |

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

C&F Financial Corporation ("Corporation") was able to increase lending in certain business segments and reduce lending less due to the CPP investment. The Corporation continues to seek prudent lending opportunities with current and prospective customers.

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X To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

Through C&F Mortgage Corporation, the Corporation increased residential mortgage lending in 2009 and 2011. Through C&F Finance Company, the Corporation increased its consumer loan portfolio in 2009, 2010 and 2011.

X Increase securities purchased (ABS, MBS, etc.).

Through C&F Bank, the Corporation increased purchases in securities in 2009, 2010 and 2011. Specifically, C&F Bank increased purchases primarily in municipal and Government Agency securities.

X Make other investments.

Through C&F Bank, the Corporation supported community redevelopment activities through \$2.0MM in commitments to low income housing tax credit funds during 2009, 2010 and 2011. The Corporation has also made investments in debt securities that support community redevelopment.

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X Increase reserves for non-performing assets.

The Corporation increased reserves for non-performing assets in each of its business segments in 2009, 2010 and 2011. The CPP investment alleviated concerns about the reduction in capital from increasing reserves, thereby allowing loan fundings and securities purchases to continue.

X Reduce borrowings.

The Corporation was able to reduce borrowings as the CPP investment was included in the total liquidity of the Corporation. Borrowings were reduced as compared to what otherwise would have been required to support loan fundings and mitigate fluctuations in deposit balances.

X Increase charge-offs.

The Corporation has experienced elevated charge-off levels in 2009, 2010 and 2011. The CPP investment alleviated concerns about the reduction in capital from increasing charge-offs, thereby allowing loan fundings and securities purchases to continue in a normal fashion.

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X Purchase another financial institution or purchase assets from another financial institution.

Through C&F Finance Company, the Corporation purchased a \$5MM pool of auto loans from a distressed lender in 2009. This investment augmented the Corporation's lending to this consumer market segment and provided liquidity to another lender through monetizing these assets.

X Held as non-leveraged increase to total capital.

The CPP investment increased capital levels of the Corporation thereby supporting consistent lending activities and securities purchases in each of its business segments throughout 2009, 2010 and 2011.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The Corporation was able to avoid 1) reducing lending activity, 2) reducing securities purchases, 3) forgoing other investments, 4) concerns regarding capital as a result of increases in reserves for non-performing assets and charge-offs, 5) increasing borrowings, 6) forgoing asset purchases, and 7) prolonged ownership of REO properties. Further, the Corporation was able to avoid reductions in its support of the local markets in which it serves through continued capital expenditures, charitable contributions, and investments in its human resources.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The Corporation was able to 1) increase lending activities in certain business segments 2) reduce lending less than otherwise would have occurred, 2) increase securities purchases, 3) make other investments, 4) increase reserves for non-performing assets and charge-offs and remain well-capitalized, 5) reduce borrowings, 6) increase asset purchases, and 7) more quickly dispose of REO properties. Further, the Corporation was able to continue to invest in the local markets in which it serves through consistent employment practices, capital expenditures to support its business initiatives, and continued charitable contributions. Specifically, C&F Bank was able to offer special programs and lending initiatives targeted towards providing liquidity to existing customers who are residential builders and developers and extending credit to potential home buyers. These programs provided credit promotions to potential customers at below market rates with limited down payment requirements and more flexible repayment terms than would otherwise be available. Further, C&F Bank offered its residential builder customers promotional credit programs for their potential customers that included lower rates and reduced or eliminated fees. Additionally, C&F Bank is offering commercial real estate customers favorable rates and terms for acquiring or refinancing commercial real estate in which the owner is occupying the property. Also, C&F Bank developed an internal credit program to address the needs of small business medical professionals that includes favorable market rates and terms. Finally, C&F Bank is offering favorable rates on residential real estate mortgage loans with shorter maturities and amortization periods. C&F Finance Company continues to originate new auto loans in a time where many of its competitors have reduced or even ceased origination due to the weak economic environment and dislocations in the capital markets that have made securitization transactions difficult to execute. While mindful of the current recessionary economic environment and the impact on the non-prime consumer credit segment, C&F Finance continues to lend to customers in this segment. In 2009 and 2011, C&F Mortgage Corporation increased loan production as refinancing activity was stimulated by the low mortgage rate environment and purchase activity was aided by the government stimulus programs. In addition to the loans that are originated for sale in the secondary market, C&F Mortgage partners with C&F Bank to originate loans for which no secondary market is currently available, including financing construction loans that convert to permanent financing upon construction completion. These are loans that C&F Bank retains and services. The Corporation in each of its business segments continues to work with customers who are struggling with their payments in an effort to avoid defaults, foreclosures, repossessions or would have otherwise been unable to refinance their debts. Such actions have included restructuring terms and conditions of existing loans and agreeing to extend or renew credit facilities that had matured.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

Through the infusion of CPP funds, the Corporation's already well-capitalized status has been enhanced. This has allowed the Corporation through its business segments to provide products and programs that otherwise might not have been offered. New products and programs have been created to enhance lending activity and help customers. The Corporation has been and will continue to be willing to work with customers who are struggling with their payments in an effort to avoid foreclosure or repossession. Additionally, C&F Bank has made considerable capital investments in its human and technology resources that support its ability to acquire and support the needs of small business customers. Significant upgrades have recently been made to systems that run and support payment and information systems, such as online business banking, wire transfer and ACH processing, that are crucial to the daily operations of small businesses. Additionally, investments in enhanced business lending software, imaging technology and system processes will provide the means to increase productivity of team members to better serve the needs of small business customers and prospects.